

**AUDIT REPORT OF
FLEMING COUNTY
SHERIFF'S SETTLEMENT-2005 TAXES**

April 3, 2006

**Donna Bouvier
Certified Public Accountant**

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FLEMING COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

April 3, 2006

I have completed the audit of the Sheriff's Settlement - 2005 Taxes for Fleming County Sheriff as of April 3, 2006. I have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,646,524 for the districts for 2005 Taxes; retaining commissions of \$140,104 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,498,694 to the districts for 2005 taxes after refunds of \$7,757.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of December 12, 2005, were exposed to custodial risk as follows:

- Uncollateralized and Uninsured \$1,619,473

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Larry Foxworthy, Fleming County Judge/Executive
Honorable Jerry Wagner, Fleming County Sheriff
Members of the Fleming County Fiscal Court

Independent Auditor's Report

I have audited the Fleming County Sheriff's Settlement - 2005 Taxes as of April 3, 2006. This tax settlement is the responsibility of the Fleming County Sheriff. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Fleming County Sheriff's taxes charged, credited, and paid as of April 3, 2006, in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, I have issued a report dated August 25, 2006, on my consideration of the County Sheriff's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Larry Foxworthy, Fleming County Judge/Executive
Honorable Jerry Wagner, Fleming County Sheriff
Members of the Fleming County Fiscal Court

Based on the results of my audit, I have presented the accompanying comment and recommendation, included herein, which discussed the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

Donna Bouvier

Donna Bouvier
Certified Public Accountant

August 25, 2006

FLEMING COUNTY
JERRY WAGNER, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

April 3, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 631,531	\$ 628,123	\$ 1,335,347	\$ 498,377
Tangible Personal Property	51,747	52,246	110,990	78,156
Intangible Personal Property	-	-	-	27,848
Fire Protection	1,803	-	-	-
Franchise Corporation	76,080	76,264	164,528	-
Limestone, Sand & Gravel	146	144	308	115
Additional Billings	343	346	741	832
Penalties	5,481	5,457	11,578	4,496
Adjusted to Sheriff's Receipt	3	13	9	9
Gross Chargeable to Sheriff	<u>\$ 767,134</u>	<u>\$ 762,593</u>	<u>\$ 1,623,501</u>	<u>\$ 609,833</u>
<u>Credits</u>				
Discounts	9,843	9,768	20,775	8,692
Exonerations	3,783	3,737	7,999	2,996
Delinquents:				
Real Estate	8,831	8,812	18,588	6,937
Tangible Personal Property	118	119	255	320
Intangible Personal Property	-	-	-	13
Uncollected Franchise	1,187	1,200	2,564	-
Total Credits	<u>\$ 23,762</u>	<u>\$ 23,636</u>	<u>\$ 50,181</u>	<u>\$ 18,958</u>
Taxes Collected	743,372	738,957	1,573,320	590,875
Less: Commissions *	<u>31,881</u>	<u>30,903</u>	<u>51,920</u>	<u>25,400</u>
Taxes Due	711,491	708,054	1,521,400	565,475
Taxes Paid	709,843	706,533	1,518,101	564,217
Refunds (Current and Prior Year)	<u>1,577</u>	<u>1,542</u>	<u>3,379</u>	<u>1,259</u>
Due Districts or (Refunds Due Sheriff)				
as of Completion of Fieldwork	<u>\$ 71</u>	<u>\$ (21)</u>	<u>\$ (80)</u>	<u>\$ (1)</u>

**

The accompanying notes are an integral part of the financial statement.

FLEMING COUNTY
 JERRY WAGNER, SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 April 3, 2006
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,862,106
4% on	\$	201,098
3.3% on	\$	1,573,320

** Special Taxing Districts:

Library District	\$	(3)
Health District		2
Extension District		(2)
Ambulance District		(4)
Soil Conservation District		(13)
Watershed District		<u>(1)</u>

Due District or (Refund Due Sheriff)	\$	<u><u>(21)</u></u>
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The accompanying notes are an integral part of the financial statement.

NOTES TO FINANCIAL STATEMENT

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT
SHERIFF'S SETTLEMENT – 2005 TAXES

April 3, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT
SHERIFF'S SETTLEMENT - 2005 TAXES
April 3, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk –Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 12, 2005, \$1,619,473 of the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$1,619,473

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2005, through April 3, 2006.

Note 4. Interest Income

The Fleming County Sheriff earned \$1,091 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Fleming County Sheriff collected \$17,681 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Fleming County Sheriff collected \$1,650 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

FLEMING COUNTY
JERRY WAGNER, SHERIFF
COMMENT AND RECOMMENDATION
SHERIFF'S SETTLEMENT – 2005 TAXES

April 3, 2006

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks an adequate segregation of duties. There is a limited staff size which prevents adequate division of responsibilities. The Sheriff should implement the following compensating controls to help offset the lack of adequate segregation of duties:

- Daily receipts reconciled to daily checkout sheets by a person who has no access to accounting records and who does not make deposits.
- Recording of receipts and disbursements ledgers by an individual who does not make deposits or sign checks.
- Bank reconciliation prepared monthly and agreed to the receipts and disbursements ledgers by an individual who has no access to accounting records, makes no deposits, or signs checks.

Sheriff's Response: None.

Prior Year Finding:

The prior year audit report had The Sheriff's Office Lacks Adequate Segregation Of Duties as a reportable condition. As noted above, this reportable condition has not been corrected.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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To the Honorable Larry Foxworthy, Fleming County Judge/Executive
Honorable Jerry Wagner, Fleming County Sheriff
Members of the Fleming County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

I have audited the Fleming County Sheriff's Settlement - 2005 Taxes as of April 3, 2006, and have issued my report thereon dated August 25, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Fleming County Sheriff's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An Audit
Of The Financial Statement Performed In Accordance With
Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fleming County Sheriff's Settlement -2005 Taxes as of April 3, 2006, is free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Donna Bouvier

Donna Bouvier
Certified Public Accountant

August 25, 2006